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REGULATORY AUTH.

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Guy M. Hicks
General Counsel

February 16, 2001
OFFICE OF THE
EXECUTIVE SECRETARY

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VIA HAND DELIVERY

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

RE: *All Telephone Companies Tariff Filings Regarding Reclassification Of
Pay Telephone Service As Required By Federal Communications
Commission (FCC) Docket 96-439
Docket No. 97-00409*

Dear Mr. Waddell:

Enclosed are the original and thirteen copies of BellSouth's Comments on Deaveraging. Copies of the enclosed are being provided to counsel of record for all parties.

Very truly yours,

Guy M. Hicks

GMH:ch
Enclosure

BEFORE THE TENNESSEE REGULATORY AUTHORITY
Nashville, Tennessee

In Re: *All Telephone Companies Tariff Filings Regarding Reclassification of Pay Telephone Service as Required by Federal Communications Commission (FCC) Docket 96-128*

Docket No. 97-00409

BELLSOUTH TELECOMMUNICATIONS, INC.'S
COMMENTS ON DEAVERAGING

In compliance with the "Interim Order" issued in this docket on February 1, 2001, BellSouth Telecommunications, Inc. ("BellSouth") respectfully submits the following comments on whether the Tennessee Regulatory Authority ("TRA") should order the deaveraging of the rates established in that Interim Order. If these rates are deaveraged, payphone service providers likely will intensify their current focus on the urban areas of the State because they will pay significantly lower rates for payphone service in those areas than they will pay in the rural areas of the State. Deaveraging these rates, therefore, will frustrate (rather than foster) the 1996 Act's goals of promoting competition among payphone service providers and promoting the widespread deployment of payphone services to the benefit of the general public. The TRA, therefore, should not order deaveraged rates in this docket.

I. IT IS BELL SOUTH'S UNDERSTANDING THAT IF THE TRA DECIDES TO DEAVERAGE THE RATES ESTABLISHED IN THIS DOCKET, IT WILL DO SO ON THE BASIS OF THE COSTS OF PROVIDING SERVICE.

As noted in the Interim Order, "the Directors voted unanimously that payphone rates should be designed to recover costs in the manner in which costs are incurred." Interim Order at 15. Based on this statement, it is BellSouth's understanding that if the TRA decides to deaverage rates, it would do so on the basis of the costs of providing service. The deaveraged rates in the more rural areas of the state (where it costs more to provide the services), therefore, would be higher than the deaveraged rates in the more urban areas of the state (where it costs less to provide the services).

II. DEAVERAGED RATES WOULD FRUSTRATE THE GOALS OF SECTION 276 OF THE 1996 ACT, WHEREAS AVERAGED RATES WOULD FOSTER THESE GOALS.

Section 276 of the Telecommunications Act of 1996 addresses the deregulation of payphone services. As noted on page 15 of the "Interim Order," this section explicitly states Congress' dual goals of: (1) "promot[ing] competition among payphone service providers;" and (2) "promot[ing] the widespread deployment of payphone services to the benefit of the general public" See 47 U.S.C. §276(b)(1). As explained below, deaveraged rates would frustrate these dual goals, whereas averaged rates would foster them. The TRA, therefore, should adopt averaged rates.

The Interim Order correctly notes that "current payphone rates contained in the LECs' tariffs are deaveraged; that is, the rates vary according to rate group or

local exchange.” *See* Interim Order at 15. These current payphone rates, however, are “deaveraged” on a social policy basis, not on a cost basis. Accordingly, these rates currently are higher in the urban areas of the State than they are in the more rural areas of the state. With regard to BellSouth’s coin telephone services, for instance, the monthly access line basic rate ranges from \$25.02 in Rate Group 5 (Memphis and Nashville) to \$17.06 in Rate Group 1 (the most rural areas of the State). *See, e.g.*, BellSouth’s General Subscriber Services Tariff A7.4.5.A.

Despite the fact that these rates are higher in the urban areas of the State, more than 77% of BellSouth’s PTAS lines were in Rate Groups 4 and 5 as of December 2000. Most of the competitors in the payphone market, therefore, focus on the urban areas of the state even though the rates they pay are higher in those urban areas. If the rate structure were reversed and the rates in the urban areas suddenly became much lower than the rates in the rural areas, many of the competitors currently operating in the rural areas likely would migrate to the urban areas. Moreover, new entrants and competitors expanding their offerings likely would focus intensely on the urban areas and pay little attention to the rural areas.

This would frustrate, rather than foster, the dual goals of the 1996 Act for at least two reasons. First, it would result in fewer competitors vying against one another in the rural areas of the state, which clearly is counter to the Act’s goal of “promot[ing] competition among payphone service providers.” *See* 47 U.S.C. §276(b)(1). Second, it would result in fewer payphone locations in the more rural areas of the state, which clearly is counter to the Act’s goal of “promot[ing] the

widespread deployment of payphone services to the benefit of the general public.”

See Id.

Averaged rates, on the other hand, would foster the dual goals of the 1996 Act. Because the current disparity in rates across the State would no longer exist, more competitors would have more of an incentive to expand their service offerings into the rural areas of the State. This would foster Congress’ goal of “promot[ing] competition among payphone service providers” by increasing the number of providers competing against one another in the rural areas. It would also foster Congress’ goal of promot[ing] the widespread deployment of payphone services to the benefit of the general public” by incenting providers to expand their offerings throughout the state rather than focusing primarily on Memphis, Nashville, Knoxville, and Chattanooga. The TRA, therefore, should not order the rates established in this docket to be deaveraged.

III. IF THE TRA DECIDES TO DEAVERAGE THE RATES ESTABLISHED IN THIS DOCKET, IT SHOULD ADOPT THE SAME DEAVERAGING METHODOLOGY THAT CURRENTLY IS IN PLACE IN DOCKET NO. 97-01262.

As noted above, the TRA should not deaverage the rates established in this docket. If it decides to do so, however, the TRA should adopt the same deaveraging methodology that currently is in place in Docket No. 97-01262. The TRA, therefore, should utilize the HCPM with national defaults in order to determine the relationships between statewide costs and costs in three zones. Zone 1 should encompass Rate Groups 4 and 5; Zone 2 should encompass Rate Group 3; and Zone 3 should encompass Rate Groups 1 and 2. The ratios resulting from this

calculation should then be applied against the statewide rates for payphone services to determine geographically deaveraged rates.

CONCLUSION

For the reasons set forth above, the TRA should not order the deaveraging of the rates established in this docket.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.

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CERTIFICATE OF SERVICE

I hereby certify that on February 16, 2001, a copy of the foregoing document was served on the parties of record, as follows:

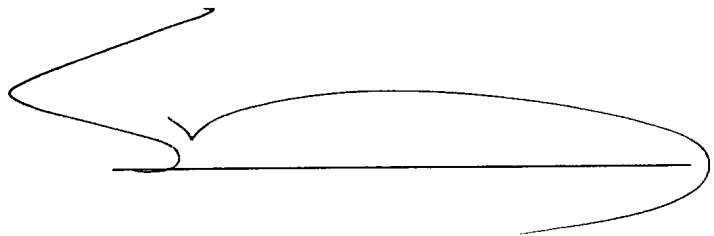
| | |
|--|-------------------------------------|
| <input type="checkbox"/> Hand | Cynthia Kinser, Esquire |
| <input checked="" type="checkbox"/> Mail | Consumer Advocate Division |
| <input type="checkbox"/> Facsimile | 426 5th Avenue, N., 2nd Floor |
| <input type="checkbox"/> Overnight | Nashville, TN 37243 |
| | |
| <input type="checkbox"/> Hand | T. G. Pappas, Esquire |
| <input checked="" type="checkbox"/> Mail | Bass, Berry & Sims |
| <input type="checkbox"/> Facsimile | 315 Deaderick Street, Suite 2700 |
| <input type="checkbox"/> Overnight | Nashville, TN 37238-0002 |
| | |
| <input type="checkbox"/> Hand | James Wright, Esquire |
| <input checked="" type="checkbox"/> Mail | United Telephone - Southeast |
| <input type="checkbox"/> Facsimile | 14111 Capitol Blvd. |
| <input type="checkbox"/> Overnight | Wake Forest, NC 27587 |
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| <input type="checkbox"/> Hand | Richard Tettelbaum |
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| <input type="checkbox"/> Overnight | Bethesda, MD 20817 |
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| <input type="checkbox"/> Hand | Jon Hastings, Esquire |
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| <input type="checkbox"/> Facsimile | P. O. Box 198062 |
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| <input type="checkbox"/> Hand | Val Sanford, Esquire |
| <input checked="" type="checkbox"/> Mail | Gullett, Sanford, Robinson & Martin |
| <input type="checkbox"/> Facsimile | 230 Fourth Ave., N., 3d Fl. |
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| <input type="checkbox"/> Hand | Henry Walker, Esquire |
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A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke, positioned above a solid horizontal line.